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FISCAL IMPACT STATEMENT

LS 7352 | **NOTE PREPARED:** Jan 14, 2007
BILL NUMBER: HB 1697 | **BILL AMENDED:**

SUBJECT: Assessment of rental property.

FIRST AUTHOR: Rep. Smith M | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill applies the method used for property tax purposes to assess rental property with more than four units to rental property with four or fewer units.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: The DLGF would be permitted to adopt temporary to implement this proposal.

Explanation of State Revenues: This provision may affect the amount of revenue that is generated for the state property tax. The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures: This bill may result in additional administrative expenses to local assessors to the extent that the officials may have to perform additional calculations in order to determine the assessed value of rental properties with four or fewer units. This impact is not expected to be significant, however, if the assessor and the taxpayer can agree on using one approach.

Explanation of Local Revenues: Under current law, the method of assessment of residential rental properties is as follows:

1) Properties with more than four units requires the use of the lower of the cost, sales, or income capitalization assessment methods.

2) For properties with four or fewer units and mobile home rentals, the gross rent multiplier (GRM) method is the preferred assessment method.

Under this proposal, beginning with taxes payable in 2008, all residential rental real properties, regardless of the number of units, would be subject to assessment under the lower of the cost, sales, or income capitalization assessment methods. This would potentially change the assessments of rental properties with four or fewer units. In many cases, the current GRM assessment will be the income capitalization assessment and may be the lowest of the three methods. For other properties, the other methods might provide lower assessments. It is unlikely that this provision would result in the increase of rental assessments. Rather, the changes, if any, would be AV reductions.

AV reductions would cause a shift of the property tax burden from the taxpayers receiving reduced assessments to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the reduced assessed value amount applicable to that fund. The actual impact is indeterminable.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Township assessors; County assessors.

Information Sources:

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